

CITY OF NEWELL
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2011

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CITY OF NEWELL

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Christiansen	Mayor	2013
Chris Eldred	Council Member	2013
Dana Davis	Council Member	2013
Pamela Wilken	Council Member	2013
Stan Henrich	Council Member	2015
Sylvia Nelson	Council Member	2015
Melinda Buchholz	City Clerk/Administrator	Indefinite

CITY OF NEWELL



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Newell, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Newell, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Newell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Newell, Iowa as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2012 on our consideration of the City of Newell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newell's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
March 22, 2012

CITY OF NEWELL

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Newell provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

The cash basis net assets of the City's governmental activities increased by 29% or approximately \$145,085, from fiscal year 2010 primarily because of increases in federal grants and local option tax revenues.

The cash basis net assets of the City's business type activities increased by 335%, or approximately \$141,034, due primarily to intergovernmental sewer revenue and sewer bond proceeds exceeding sewer capital expenditures during the current year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, and debt services. Property tax and state and federal grants finance most of these activities.

Business Type Activities include water, sewer, garbage, and golf course services. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (1) the General Fund, (2) the Special Revenue Funds, such as Road Use Tax and Local Options Sales Tax, (3) the Debt Service Fund, and (4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements, and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the water, sewer, golf course, garbage and utility deposit operations. All of these funds, except for the utility deposit fund, are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30, 2011
Receipts and Transfers:	
Program receipts:	
Charges for service	\$ 130,273
Operating grants, contributions, and restricted interest	31,402
Capital grants, contributions, and restricted interest	219,525
General receipts:	
Property tax	280,787
Local option sales tax	91,466
Unrestricted investment earnings	22,729
Special assessments	8,911
Other general receipts	10,556
Total receipts	795,649
Disbursements:	
Public safety	114,159
Public works	94,163
Health and social services	50
Culture and recreation	104,062
Community and economic development	163,278
General government	95,514
Debt service	79,338
Total disbursements	650,564
Change in cash basis net assets before transfers	145,085
Transfers, net	-
Change in cash basis net assets	145,085
Cash basis net assets beginning of year	501,188
Cash basis net assets end of year	\$ 646,273

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The cost of all governmental activities this year was \$650,564. However, as shown in the Statement of Activities and Net Assets on pages 12-13, the amount taxpayers ultimately finance for these activities was only \$280,787 because some of the cost was paid by those directly benefited from the programs (\$130,273) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$250,927).

Changes in Cash Basis Net Assets of Business-Type Activities

	Year Ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 118,036
Sewer	141,177
Garbage	86,938
Golf Course	60,998
Capital grants, contributions and restricted interest	249,575
General receipts:	
Bond proceeds	688,607
Other general receipts	976
Total receipts	1,346,307
Disbursements:	
Water	70,151
Sewer	951,588
Garbage	79,140
Golf Course	103,719
Utility deposits	675
Total disbursements	1,205,273
Change in cash basis net assets before transfers	141,034
Transfers, net	-
Change in cash basis net assets	141,034
Cash basis net assets beginning of year	42,146
Cash basis net assets end of year	\$ 183,180

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

As City of Newell completed the year, its governmental funds reported a combined fund balance of \$646,273, an increase of \$145,085 from last year's total \$501,188. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$117,029 from the prior year to \$237,739. This increase was primarily due to an increase in federal grants and local option taxes.

The Special Revenue, Road Use Fund cash balance increased by \$4,469 to \$65,011 primarily as a result of operating transfers.

The Special Revenue, Local Options Sales Tax Fund, which accounts for monies received from the state for community betterment and property tax relief, cash balance increased by \$31,875 to \$279,471 due to no capital project being completed to which the money could be transferred.

The Debt Service Fund, which accounts for the payment of principal and interest on the City's long-term debt, cash balance increased by \$9,399 to \$(2,665) due to money received from general obligation bond.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund, which accounts for the operation and maintenance of the City's water system, cash balance increased by \$47,885 to \$138,726, due to increased receipts from citizens.

The Sewer Fund, which accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system, cash balance increased by \$127,771 primarily because the debt service fund was used to pay the sanitary sewer bonds.

The Golf Course Fund, which accounts for the operation of the City-owned golf course, cash balance decreased by \$42,721 to \$(79,839) primarily because expenses were greater than receipts due to vehicle maintenance and increased costs of supplies.

The Garbage Fund, which accounts for the City's system of solid waste removal, cash balance increased by \$7,798 to \$(8,704).

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget one time. The amendment was approved on April 4, 2011 to provide for additional grants and disbursements relating to public safety. The City increased Intergovernmental receipts and Public Safety disbursements both by \$31,000.

The City's receipts were \$669,061 less than budgeted. This was primarily due to the city receiving less grants and reimbursements than anticipated, even after the amendment.

The City's total disbursements were \$809,021 less than the amended budget. All disbursements, except for debt services, were less than the amended budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS (CONTINUED)

The City exceeded the amount budgeted in the debt service and capital project funds for the year ended June 30, 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$1,671,540 in debt, compared to \$1,789,425 last year.

Outstanding Debt at Year-End

	June 30, 2011
General obligation notes	\$ 862,000
Revenue note	806,000
Drainage district assessments	3,540
	\$ 1,671,540

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit of \$1.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Newell elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees charged for various City activities. The City's 2012 taxable valuation increased by \$828,976, or about 3.9% of the 2011 level.

The 2012 budget contains total receipts of \$1,193,133 and disbursements of \$1,193,133. This budget is lower than the 2011 budget, which contained total receipts of \$3,250,472 and disbursements of \$2,964,601. The 2012 budget includes decreased receipts due from the issuance of general obligation bonds in 2011 and decreased disbursements due to the completion of scheduled replacements at the sewer treatment plant in 2011.

The 2012 levy is \$15.06573 per \$1,000 of taxable valuation, an increase from \$13.09124 per \$1,000 taxable valuation for 2011.

These parameters were taken into account when adopting the budget for 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melinda Buchholz, City Clerk, PO Box 315, Newell, Iowa 50568.

CITY OF NEWELL

BASIC FINANCIAL STATMENTS

CITY OF NEWELL

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2011

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 114,159	\$ 28,301	\$ -	\$ -
Public works	94,163	-	-	-
Health and social services	50	-	16,605	-
Culture and recreation	104,062	20,892	-	-
Community and economic development	163,278	81,080	-	137,557
General government	95,514	-	-	81,968
Debt service	79,338	-	14,797	-
Total governmental activities	650,564	130,273	31,402	219,525
Business type activities:				
Water	70,151	118,036	-	-
Sewer	951,588	141,177	-	249,575
Garbage	79,140	86,938	-	-
Golf course	103,719	60,998	-	-
Utility deposits	675	-	976	-
Total business type activities	1,205,273	407,149	976	249,575
Total	\$ 1,855,837	\$ 537,422	\$ 32,378	\$ 469,100

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (85,858)	\$ -	\$ (85,858)
(94,163)	-	(94,163)
16,555	-	16,555
(83,170)	-	(83,170)
55,359	-	55,359
(13,546)	-	(13,546)
(64,541)	-	(64,541)
(269,364)	-	(269,364)
-	47,885	47,885
-	(560,836)	(560,836)
-	7,798	7,798
-	(42,721)	(42,721)
-	301	301
-	(547,573)	(547,573)
(269,364)	(547,573)	(816,937)

(Continued on next page)

CITY OF NEWELL

Exhibit A
(Continued)

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

As of and for the Year Ended June 30, 2011

	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
General Receipts:			
Property tax levied for:			
General purposes	\$ 198,315	\$ -	\$ 198,315
Debt service	31,464	-	31,464
Employee benefits	51,008	-	51,008
Local option sales tax	91,466	-	91,466
Unrestricted interest on investments	22,729	-	22,729
Special assessments	8,911	-	8,911
Bond proceeds	-	688,607	688,607
Miscellaneous	10,556	-	10,556
Total general receipts and transfers	414,449	688,607	1,103,056
Change in cash basis net assets	145,085	141,034	286,119
Cash basis net assets beginning of year	501,188	42,146	543,334
Cash basis net assets end of year	<u>\$ 646,273</u>	<u>\$ 183,180</u>	<u>\$ 829,453</u>
Cash Basis Net Assets			
Restricted:			
Nonexpendable:			
Cemetery perpetual care	\$ 20,468	\$ -	\$ 20,468
Library	5,000	-	5,000
Expendable:			
Streets	65,011	-	65,011
Debt service	(2,665)	-	(2,665)
Other purposes	320,720	-	320,720
Unrestricted	237,739	183,180	420,919
Total cash basis net assets	<u>\$ 646,273</u>	<u>\$ 183,180</u>	<u>\$ 829,453</u>

See notes to financial statements.

CITY OF NEWELL

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -- GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2011

	Special Revenue		
	General	Road Use	Local Option Sales Tax
Receipts:			
Property tax	\$ 198,315	\$ -	\$ -
Other city tax	-	-	91,466
Licenses and permits	1,538	-	-
Use of money and property	22,729	-	-
Intergovernmental	145,357	80,430	-
Charges for services	128,825	-	-
Special assessments	-	-	-
Miscellaneous	10,216	-	-
Total receipts	506,980	80,430	91,466
Disbursements:			
Operating:			
Public safety	114,159	-	-
Public works	9,311	84,852	-
Health and social services	50	-	-
Culture and recreation	103,642	-	-
Community and economic development	163,278	-	-
General governments	95,514	-	-
Debt service	-	-	-
Total disbursements	485,954	84,852	-
Excess (deficiency) of receipts over (under) disbursements	21,026	(4,422)	91,466
Other financing sources (uses):			
Operating transfers in	123,468	8,891	-
Operating transfers out	(27,465)	-	(59,591)
Total other financing sources (uses)	96,003	8,891	(59,591)
Net change in cash balances	117,029	4,469	31,875
Cash balances beginning of year	120,710	60,542	247,596
Cash balances end of year	\$ 237,739	\$ 65,011	\$ 279,471

Exhibit B

Debt Service		Nonmajor	Total
\$	31,464	\$ 51,008	\$ 280,787
	-	-	91,466
	-	-	1,538
	-	-	22,729
	23,602	-	249,389
	-	1,448	130,273
	8,911	-	8,911
	-	340	10,556
	63,977	52,796	795,649
	-	-	114,159
	-	-	94,163
	-	-	50
	-	420	104,062
	-	-	163,278
	-	-	95,514
	79,338	-	79,338
	79,338	420	650,564
	(15,361)	52,376	145,085
	38,315	-	170,674
	(13,555)	(70,063)	(170,674)
	24,760	(70,063)	-
	9,399	(17,687)	145,085
	(12,064)	84,404	501,188
\$	(2,665)	\$ 66,717	\$ 646,273

(Continued on next page)

CITY OF NEWELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -- GOVERNMENTAL FUNDS**

As of and for the Year Ended June 30, 2011

	<hr/> Special Revenue <hr/>		
	General	Road Use	Local Option Sales Tax
Cash Basis Fund Balances			
Nonspendable:			
Cemetary perpetual care	\$ -	\$ -	\$ -
Library	-	-	-
Resricted for:			
Debt service	-	-	-
Streets	-	65,011	-
Other purposes	-	-	279,471
Unassigned	237,739	-	-
	<hr/>	<hr/>	<hr/>
Total cash basis fund balances	\$ 237,739	\$ 65,011	\$ 279,471
	<hr/>	<hr/>	<hr/>

See notes to financial statements.

Exhibit B
(Continued)

Debt Service	Nonmajor	Total
\$ -	\$ 20,468	\$ 20,468
-	5,000	5,000
(2,665)	-	(2,665)
-	-	65,011
-	41,249	320,720
-	-	237,739
<hr/>		
\$ (2,665)	\$ 66,717	\$ 646,273

CITY OF NEWELL

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES – PROPRIETARY FUNDS**

As of and for the Year Ended June 30, 2011

	Major Funds		
	Water	Sewer	Golf Course
Operating Receipts:			
Charges for services	\$ 118,036	\$ 141,177	\$ 60,998
Miscellaneous	-	-	-
Total operating receipts	118,036	141,177	60,998
Operating Disbursements:			
Business type activities	70,151	42,481	103,719
Excess (deficiency) of operating receipts over operating disbursements	47,885	98,696	(42,721)
Non-operating receipts (disbursements):			
Intergovernmental	-	249,575	-
General obligation bond proceeds	-	688,607	-
Debt service	-	(95,129)	-
Capital projects	-	(813,978)	-
Net non-operating receipts (disbursements)	-	29,075	-
Excess (deficiency) of receipts over disbursements	47,885	127,771	(42,721)
Other financing sources (uses)			
Operating transfers in	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	47,885	127,771	(42,721)
Cash balances beginning of year	90,841	921	(37,118)
Cash balances end of year	\$ 138,726	\$ 128,692	\$ (79,839)
Cash Basis Fund Balances			
Unreserved	\$ 138,726	\$ 128,692	\$ (79,839)
Total cash basis fund balances	\$ 138,726	\$ 128,692	\$ (79,839)

See notes to financial statements.

Exhibit C

Nonmajor Fund		
Garbage	Utility Deposits	Total
\$ 86,938	\$ -	\$ 407,149
-	976	976
86,938	976	408,125
79,140	675	296,166
7,798	301	111,959
-	-	249,575
-	-	688,607
-	-	(95,129)
-	-	(813,978)
-	-	29,075
7,798	301	141,034
-	-	-
-	-	-
7,798	301	141,034
(16,502)	4,004	42,146
\$ (8,704)	\$ 4,305	\$ 183,180
\$ (8,704)	\$ 4,305	\$ 183,180
\$ (8,704)	\$ 4,305	\$ 183,180

CITY OF NEWELL

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

City of Newell, Iowa is a political subdivision of the State of Iowa located in Buena Vista County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, general government services. The City also provides water, sewer, garbage and recreational golf for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Newell, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint representatives to the following boards and commissions: Newell Fire Board, Buena Vista County Solid Waste Commission, Buena Vista County Assessor's Conference Board, Buena Vista County Emergency Management Commission and Buena Vista County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations that require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management that can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general an emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for monies received to be used for community betterment and property tax relief.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Garbage Fund accounts for the operation and maintenance of the City's system of solid waste removal.

The Golf Course Fund accounts for the operation and maintenance of the City run golf course.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The City of Newell, Iowa maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specified purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Date of Management's Review

Subsequent events have been evaluated through March 22, 2012 that is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

NOTES TO FINANCIAL STATEMENTS

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2011, meeting the disclosure requirement of Governmental Auditing Standards Board Statement Number 3, as amended by Statement 40. During the year ended June 30, 2011 the City invested its excess funds in savings accounts and certificates of deposit.

Interest rate risk – The City's investment policy limits the investing of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for revenue note, special assessment and general obligation bonds are as follows:

Year Ending June 30	General Obligation Notes		Street Improvements		Drainage District Assessments	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 30,000	\$ 4,750	\$ 30,000	\$ 12,038	\$ 885	\$ 178
2013	5,000	3,210	35,000	11,018	885	133
2014	5,000	2,893	35,000	9,793	885	88
2015	5,000	2,568	35,000	8,515	885	44
2016	5,000	2,233	35,000	7,185	-	-
2017-2022	25,000	5,331	120,000	17,170	-	-
2023-2030	-	-	15,000	690	-	-
Total	\$ 75,000	\$ 20,985	\$ 305,000	\$ 66,409	\$ 3,540	\$ 443

NOTES TO FINANCIAL STATEMENTS

(3) Bonds and Notes Payable (Continued)

Year Ending June 30	Sewer Revenue		General Obligation Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 31,000	\$ 24,181	\$ 19,000	\$ 14,460	\$ 110,885	\$ 55,607
2013	32,000	23,250	19,000	13,890	91,885	51,501
2014	33,000	22,290	20,000	13,320	93,885	48,384
2015	34,000	21,300	21,000	12,720	95,885	45,147
2016	36,000	20,280	21,000	12,090	97,000	41,788
2017-2022	239,000	97,920	144,000	58,350	528,000	178,771
2023-2030	401,000	56,100	238,000	33,210	654,000	90,000
Total	\$ 806,000	\$ 265,321	\$ 482,000	\$ 158,040	\$ 1,671,540	\$ 511,198

Revenue Note

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$845,000 in sewer revenue notes issued in June 2010. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2030. The total principal and interest remaining to be paid on the notes is \$1,071,321. For the current year, principal and interest paid and total customer net receipts were \$51,882 and \$98,696 respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The note will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) The sewer systems shall each maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate.

Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 was \$14,022, equal to the required contribution.

NOTES TO FINANCIAL STATEMENTS

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned benefit payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 43,526</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(6) Deficit Fund Balances

The Debt Service Fund, Golf Course Fund, and Garbage Fund had a net deficit balance of \$2,665, \$79,839, and \$8,704, respectively, at June 30, 2011. The deficit balances were a result the City having more expenditures than receipts. The City will re-evaluate the monies appropriated to these funds in the next year.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Library	\$ 19,000
	Ambulance	8,465
	Debt	13,555
	Pool and park	5,493
	Employee benefits	55,679
	Local option sales tax	21,276
		<u>123,468</u>
Special Revenue:	Special Revenue:	
Road use	Employee benefits	<u>8,891</u>
Debt service	Proprietary:	
	Local option sales tax	<u>38,315</u>
		<u>\$ 170,674</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTES TO FINANCIAL STATEMENTS

(8) Risk Management

The City of Newell is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Landfill Agreement

The City participates in an agreement with the Buena Vista County Solid Waste Commission, a political subdivision created under Chapter 28E of the Code of Iowa. The purpose of the Commission includes providing economic disposal of solid waste produced or generated within the member counties and municipalities. Payments to that commission totaled \$34,593 during the year ended June 30, 2011.

(10) Loan Agreement

On July 1, 2004, City of Newell entered into a loan agreement with Newell Children's Center for the purpose of enabling the Children's Center to acquire a building to be used to provide child care services within the City. The principal amount of the loan was \$80,000 with \$5,000 principal payments due each June 1 through June 2019 with a final payment of \$10,000 due June 1, 2020, and interest payments due on December 1 and June 1 of each fiscal year. This loan is secured by a mortgage on the building. The balance of this loan as of June 30, 2011 is \$50,000.

CITY OF NEWELL, IOWA

SUPPLEMENTARY INFORMATION

CITY OF NEWELL

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL (CASH BASIS) --
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

Required Supplementary Information

Year Ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 280,787	\$ -	\$ 280,787
Other city tax	91,466	-	91,466
Licenses and permits	1,538	-	1,538
Use of money and property	22,729	-	22,729
Intergovernmental	249,389	938,182	1,187,571
Charges for service	130,273	407,149	537,422
Special assessments	8,911	976	9,887
Miscellaneous	10,556	-	10,556
Total receipts	795,649	1,346,307	2,141,956
Disbursements:			
Public safety	114,159	-	114,159
Public works	94,163	-	94,163
Health and social services	50	-	50
Culture and recreation	104,062	-	104,062
Community and economic development	163,278	-	163,278
General government	95,514	-	95,514
Debt service	79,338	95,129	174,467
Capital projects	-	813,978	813,978
Business type activities	-	296,166	296,166
Total disbursements	650,564	1,205,273	1,855,837
Excess of receipts over disbursements	145,085	141,034	286,119
Other financing sources (uses), net	-	-	-
Excess of receipts and other financing sources	145,085	141,034	286,119
Balance beginning of year	501,188	42,146	543,334
Balance end of year	\$ 646,273	\$ 183,180	\$ 829,453

Budgeted Amounts		Final to Total Variance	
Original	Final		
\$ 272,732	\$ 272,732	\$ 8,055	
79,421	79,421	12,045	
3,080	3,080	(1,542)	
2,500	2,500	20,229	
275,033	306,033	881,538	
418,550	418,550	118,872	
17,671	17,671	(7,784)	
1,711,030	1,711,030	(1,700,474)	
2,780,017	2,811,017	(669,061)	
83,179	114,179	20	
121,316	121,316	27,153	
1,000	1,000	950	
239,583	239,583	135,521	
170,000	170,000	6,722	
95,671	95,671	157	
79,313	79,313	(95,154)	
-	-	(813,978)	
1,843,796	1,843,796	1,547,630	
2,633,858	2,664,858	809,021	
146,159	146,159	139,960	
(146,030)	(146,030)	146,030	
129	129	285,990	
375,218	375,218	168,116	
\$ 375,347	\$ 375,347	\$ 454,106	

CITY OF NEWELL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Functional disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there was one budget amendment on April 4, 2011. The amendment increased Intergovernmental receipts and Public Safety disbursements by \$31,000.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted in the general government and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NEWELL

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES -- NONMAJOR GOVERNMENTAL FUNDS**

As of and for the Year Ended June 30, 2011

	Special Revenue		
	Employee Benefits	Library	Park/Pool
Receipts:			
Property tax	\$ 51,008	\$ -	\$ -
Charges for services	-	-	1,448
Miscellaneous	-	-	-
Total receipts	51,008	-	1,448
Disbursements:			
Culture and recreation	-	-	328
Excess of receipts over disbursements	51,008	-	1,120
Other financing uses:			
Transfers out:	(64,570)	-	(5,493)
Net change in cash balances	(13,562)	-	(4,373)
Cash balances beginning of year	17,007	27,924	14,253
Cash balances end of year	\$ 3,445	\$ 27,924	\$ 9,880
Cash Basis Fund Balances			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Library	-	-	-
Restricted for other purposes	3,445	27,924	9,880
Total cash basis fund balances	\$ 3,445	\$ 27,924	\$ 9,880

Schedule 1

Permanent Funds

Library		Cemetary		Total
\$	-	\$	-	\$ 51,008
	-		-	1,448
	-		340	340
	-		340	52,796
<hr/>				
	-		92	420
<hr/>				
	-		248	52,376
<hr/>				
	-		-	(70,063)
<hr/>				
	-		248	(17,687)
	5,000		20,220	84,404
<hr/>				
\$	5,000	\$	20,468	\$ 66,717
<hr/>				
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\$	-	\$	20,468	\$ 20,468
	5,000		-	5,000
	-		-	41,249
<hr/>				
\$	5,000	\$	20,468	\$ 66,717
<hr/>				

CITY OF NEWELL

SCHEDULE OF INDEBTEDNESS

Year Ended June 30, 2011

	Date of Issue	Interest Rate	Amount Originally Issued
General Obligation Notes:			
Sewer improvement	05/01/02	5.00-5.10%	\$ 190,000
Newell Children's Center	07/01/03	5.80-7.75%	80,000
Fire truck and street improvement	5/1/08	3.15-4.60%	395,000
Sewer construction	5/12/10	3.00%	500,000
			<u>\$ 1,165,000</u>
Revenue Note:			
Sewer	06/02/10	3.00%	<u>\$ 1,064,000</u>
Special Assessment:			
Drainage district assessments	09/01/05	5.00%	<u>\$ 9,612</u>

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 2,525	\$ -
55,000	-	5,000	50,000	3,805	-
335,000	-	30,000	305,000	12,983	-
500,000	-	18,000	482,000	1,250	-
\$ 940,000	\$ -	\$ 78,000	\$ 862,000	\$ 20,563	\$ -
\$ 156,393	\$ 688,607	\$ 39,000	\$ 806,000	\$ 12,882	
\$ 4,425	\$ -	\$ 885	\$ 3,540	\$ 265	\$ -

CITY OF NEWELL

BOND AND NOTE MATURITIES

Year Ended June 30, 2011

Year Ending June 30,	General Obliga					
	Sewer Improvement		Children's Center		Fire Truck and Street Improvement	
	Issued		Issued		Issued	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 25,000	\$ 1,235	\$ 5,000	\$ 3,515	\$ 30,000	\$ 12,038
2013	-	-	5,000	3,210	35,000	11,018
2014	-	-	5,000	2,893	35,000	9,793
2015	-	-	5,000	2,568	35,000	8,515
2016	-	-	5,000	2,233	35,000	7,185
2017	-	-	5,000	1,883	40,000	5,785
2018	-	-	5,000	1,520	40,000	4,145
2019	-	-	5,000	1,153	10,000	2,465
2020	-	-	10,000	775	10,000	2,035
Thereafter	-	-	-	-	35,000	3,430
	<u>\$ 25,000</u>	<u>\$ 1,235</u>	<u>\$ 50,000</u>	<u>\$ 19,750</u>	<u>\$ 305,000</u>	<u>\$ 66,409</u>

See accompanying independent auditor's report.

tion Notes**Revenue Note****Special Assessment**

Sewer Construction		Total		Sewer Revenue Loan		D.D Assessments	
Issued				Issued		Issued	
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
\$ 19,000	\$ 14,460	\$ 79,000	\$ 31,248	\$ 31,000	\$ 24,181	\$ 885	\$ 178
19,000	13,890	59,000	28,118	32,000	23,250	885	133
20,000	13,320	60,000	26,006	33,000	22,290	885	88
21,000	12,720	61,000	23,803	34,000	21,300	885	44
21,000	12,090	61,000	21,508	36,000	20,280	-	-
22,000	11,460	67,000	19,128	37,000	19,200	-	-
23,000	10,800	68,000	16,465	38,000	18,090	-	-
24,000	10,110	39,000	13,728	39,000	16,950	-	-
24,000	9,390	44,000	12,200	40,000	15,780	-	-
289,000	49,800	324,000	53,230	486,000	84,000	-	-
\$ 482,000 \$ 158,040		\$ 862,000 \$ 245,434		\$ 806,000 \$ 265,321		\$ 3,540 \$ 443	

Schedule 3

Total

Principal	Interest
\$ 110,885	\$ 55,607
91,885	51,501
93,885	48,384
95,885	45,147
97,000	41,788
104,000	38,328
106,000	34,555
78,000	30,678
84,000	27,980
810,000	137,230
\$ 1,671,540	\$ 511,198

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Newell, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 22, 2012. Our report expressed unqualified opinions on the financial statements that were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Newell, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Newell, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Newell, Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Newell, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Newell, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Newell, Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Newell, Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Newell, Iowa and other parties to whom City of Newell, Iowa may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
March 22, 2012

CITY OF NEWELL
Schedule of Findings
Year Ended June 30, 2011

Part II: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) City of Newell, Iowa did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MATERIAL WEAKNESSES

- I-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. We noted that bank deposits, opening mail, recording receipt and disbursements, checks and payroll preparation, and bank reconciliations are all handled by one individual.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – We are a small community and are limited to one office employee, the City Clerk. Total segregation of duties is improbable with limited staff. The Mayor or Mayor-Pro Tem co-signs all checks. The City Council approves all bills and review financial operations each month.

Conclusion – Response accepted.

**Schedule of Findings
Year Ended June 30, 2011
(Continued)**

Part II: Findings Related to the Financial Statements (Continued):

- 1-B-11 Financial Reporting – Reporting financial data reliably in accordance with an other comprehensive basis of account (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – We will attempt to read accounting literature and attend local professional education courses in accounting.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- II-B-11 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-11 Business Transactions – We noted no business transactions between the City and City officials or employees.
- II-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investments provision of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

**Schedule of Findings
Year Ended June 30, 2011
(Continued)**

Part III: Other Findings Related to Required Statutory Reporting (Continued):

11-H-11 Financial Condition – The Governmental Debt Service, Enterprise Garbage and Enterprise Golf Course Funds had deficit balances of \$2,665, \$8,704 and \$79,739, respectively, at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – Both the sewer rates and golf course rates will be increased. The golf course fund may be moved to the general fund in the future.

Conclusion – Response accepted.

11-I-11 Revenue Note – No instances of non-compliance with the revenue note resolution were noted.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Newell, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
March 22, 2012